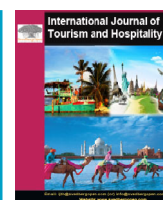




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Short Communication

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Unearthing Sri-Lanka's Economic Melancholy from a Heterogeneous Perspective

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Abstract

Once revered as one of the world's most stable and progressive economic structures, Sri Lanka was a blueprint for national success. Boasting one of the World's best education rates and notable for its tourism, the island nation of Sri Lanka was both a haven and sanctuary settled within South Asia having escaped from past conflicts of aggression, aiming to withstand the test of time. But recent ethnic belligerence within the Nation and the ongoing stresses applied by the Pandemic and Russia-Ukraine hostility has induced brittles within the country's executive forum. Political nepotism, failed reserve policies, shortsighted development investments, and, unusual yet costly national decisions, etc. have all been identified as prime contributors to their current distress and have composed a melancholic tone that seems to be endless in the current term. With the onslaught of near nullified national funds, ongoing general unrest, and upscale of unpaid debts; Sri Lanka is in desperate need of swift and effective solutions to overcome these incongruous moments. In this paper, the author tries to establish the correlations between Sri-Lanka's past mistakes that could have been attributed to their current state of affairs and proposes some proper recommendations that could provide solace.

Keywords: Sri-Lanka, Economic-Crisis, Covid-Pandemic, Political-instability

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Formerly known as Ceylon before 1972, the island-nation of Sri Lanka is an independent republic situated about 65,610 sq.km between West Asia and Southeast Asia. It is a multi-religious nation whose majority comprises 70% Buddhists and is internationally famed for being a natural tourist attraction and, bolstering picturesque landmarks and sights. From the Economical perspective, Sri Lanka was once adulated for being a rapidly progressive economic structure. Their ascension in the GDP curve was notable and, their export of Tea and Tourism sector earnings were significant factors, highlighted throughout exemplary economic advancements by World Bank data. The end of the Tamil Civil War in 2009 spearheaded by then-president Mahinda Rajapaksa was a step in the bright direction for them and soon the nation became self-sufficient in Rice production. Their biggest export Tea annually brought in over \$1.25 bn which was nearly 10% of the overall export structure and global investors looked at Sri Lanka as an ideal window of opportunity to gain a maximum investment-profit ratio by the end of the past decade ([Central Bank of Sri Lanka](#)).

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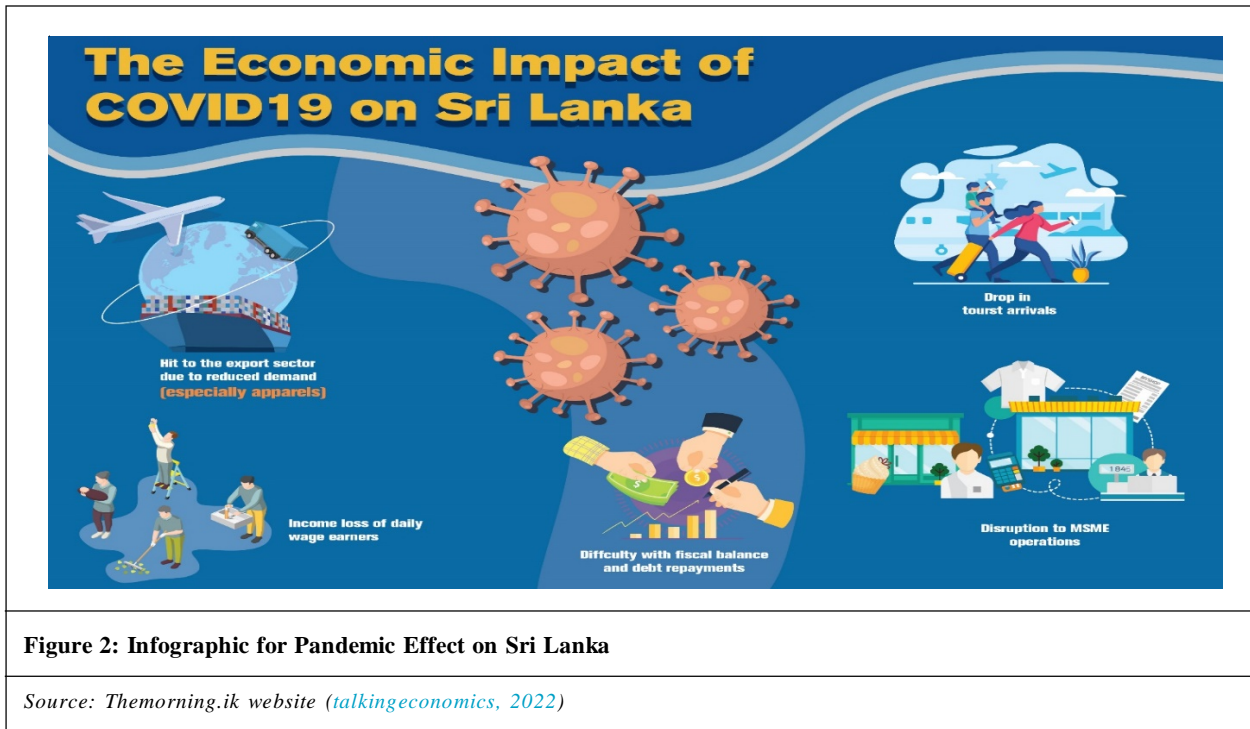


Figure 1: Events and Headings Portrayed During Culmination of Sri-Lanka Crisis

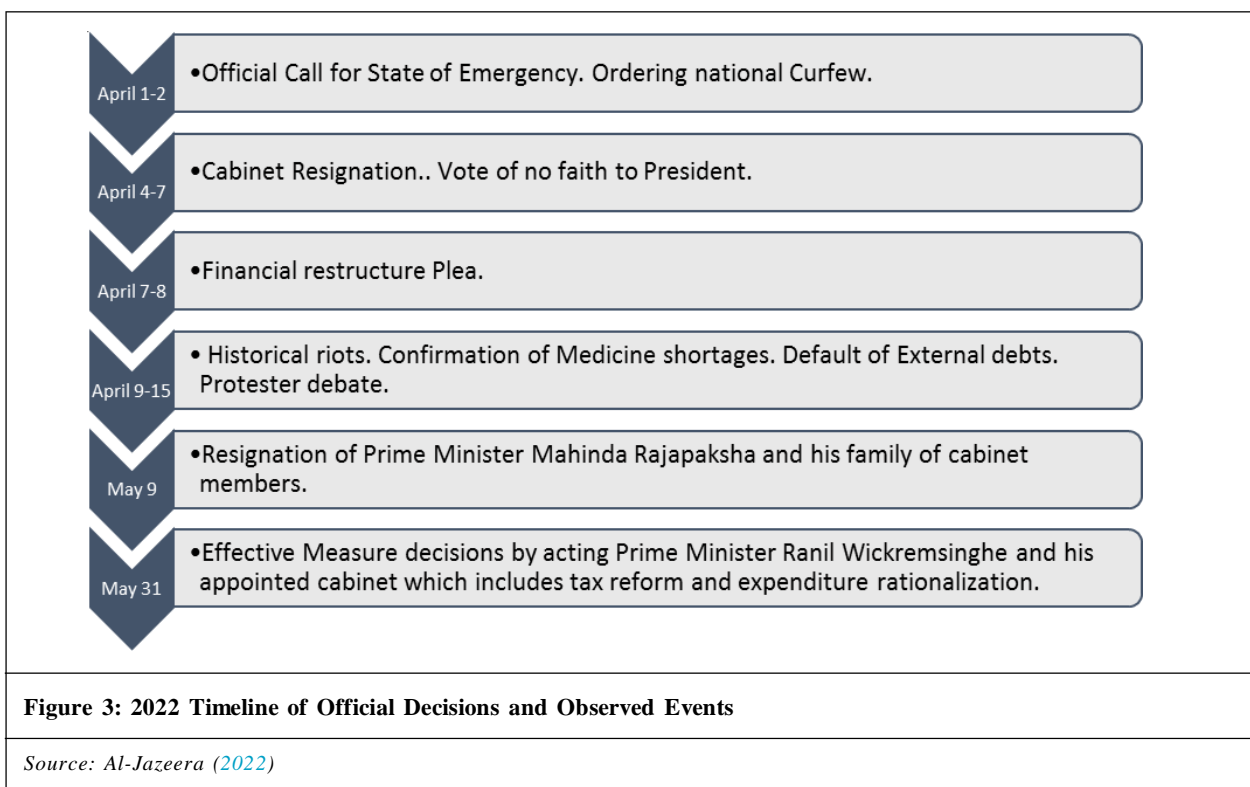
Source: Google Images

	2017	2018	2019
GDP (\$)	87.42	87.95	83.98
GDP Growth Rate (%)	3.58	3.27	2.26
Per Capita Income (\$)	4077	4059	3852
Tourism Earning (Million Dollars)	3925	4381	3697
Direct Foreign Investment (Billion Dollars)	1.37	1.61	0.76
Active Labor Force [Ages 15-24] (%)	34.82	31.7	30.06
Unemployment Rate (%)	4.05	4.32	4.27
Trade to GDP Ratio (%)	50.89	53.51	52.38

The Downfall of Sri Lanka was initiated as an aftermath of barbarity. On Easter Sunday (21st April 2019), the Bombings around the nation targeted Minority Christians causing an influx of evident repercussions. It left 278 people dead and diminished Sri Lanka’s reputation to a certain degree (BBC News, 2022). As shown in the above table, the overall identifiers started downgrading from this point on; and, only got worse onwards. Decisions from the past began making ripples for their future state and the ongoing Pandemic which started in 2020 and Russia-Ukraine conflict initiated this year, only added further fuel to their woes; as evident in their tourism sector alone which earned only \$957 mn in 2020 and GDP growth dropping to -3.57% (Sunil, 2022). Hence began a thrust of misfortunes, and currently, the nation is in dire straits, clawing at opportunities for salvation.



Sri Lanka’s economy started taking massive hits during the peak phase of the Pandemic. When global trade and tourism halted, Sri Lanka which fundamentally depended on these sectors, became the most affected among South Asian nations. Their primary emphasis on their Domestic Market over Foreign markets (a decision they made shortly after 2009) became a key factor in their undoing (ORF, 2022). When the global economy was in shell shock, Sri Lanka started getting nullified financially (Business Standard, 2022). Their foreign reserve which was \$7.6 bn by the end of 2019, had depleted to \$2.8 bn by 2021; and now as of June 2022, it has further depleted to \$1.9 bn (Economynext, 2022). With fuel prices increased in the aftermath of the war in Ukraine, Sri Lanka’s tea industry’s key export market, Russia, has seen a huge setback as well (Sunimalee, 2022). Moreover, they had invested in development projects to strengthen the country’s infrastructure, a decision that ultimately backfired.



The Rajapaksha family has been at the epicenter of the crisis controversy mainly due to their positions in the government. Starting from Presidential positions, their hold on the cabinet fills into various posts, most notable in appointments in financial departments. The country’s internal sources claim them to have 75% control over national finances ([Economic Crisis in Sri Lanka: An Assessment, 2022](#)). Their most controversial decision was rejecting IMF’s loan in favor of the Chinese conglomerate and ultimately pushing the country into the controversial “Chinese debt trap” ([Crisis-hit Sri Lanka says IMF Bailout Three Months Away, 2022](#)). Their emphasis to build the Hambantota port (in their home state) in 2017 with the Chinese finances pen-ultimately ensured massive repercussions as failure to recoup the debt resulted in China having a sovereign lease over the port for 99 years and expansion within this side of Asia. The foreign unpaid debt load of \$78 mn remains aloof and past heavy investment in the Military (Crony capitalism measures), further added to non-profitable measures.

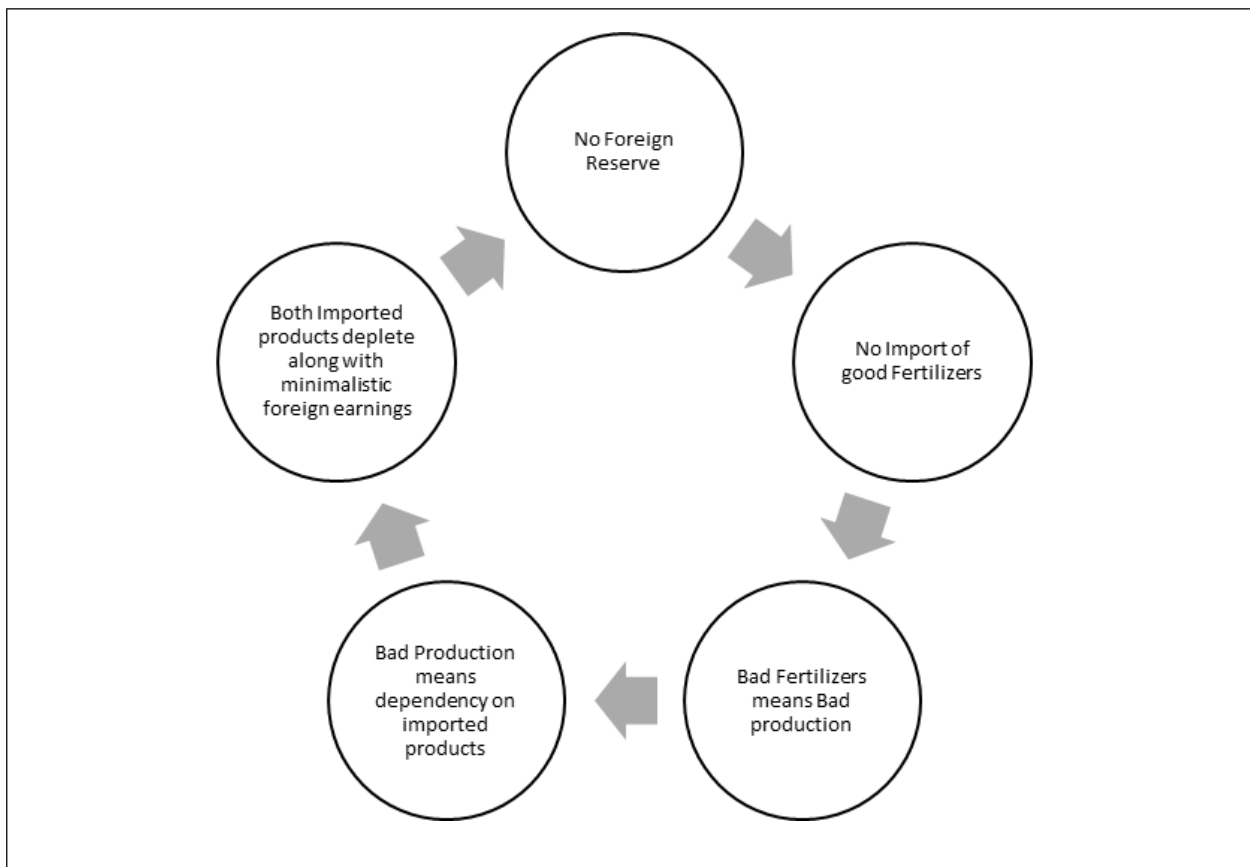


Figure 4: Cycle of Outcomes for Fertilizer Mistake by the Sri-Lanka Government

The then government’s decision to ban the import of fertilizers to save \$400 million annually rather than set the nation up for disaster ([The Daily Mirror, 2020](#)). The local inorganic fertilizers nearly halved their production of essentials, causing massive inflation of their currency in the process. \$600 mn worth of Rice had to be imported to minimize national shortage, but this only added to their depleting reserve as losses were being incurred by local businessmen (High import prices, Low Selling prices). As a direct result, Inflation has reached an all-time high at 30% (since 2019) and the general masses are being devoid of basic human rights ([Monica, 2022](#)).

All in all the current state of woe for Sri Lanka is a cumulative by-product of past mistakes and the short-sightedness of their leaders. On June 10, 2022, the UN warned that the extreme economic collapse of Sri Lanka could develop into a “full-blown humanitarian emergency” ([Human Rights Council, 2022](#)). The UN and its partners are seeking funds (\$ 47 mn) to urgently adhere to the needs of 1.7 million of the most vulnerable population in the country. Sri Lanka’s success stories on a few fronts in the last decade, including its triumph in the Covid-19 vaccine rollout in 2021, have been completely overshadowed by several policy missteps aggravated by superficial factors leading to an unprecedented catastrophe. It is unlikely that the people of Sri Lanka are going to feel economic relief soon but proactive measures could provide insulation to certain degrees.

Recommendations

1. Structural changes to the domestic front to enable sustenance from future supply chain disruptions and short-term emergencies.
2. Increasing the efficacy of their domestic production and consumption processes, preventing extreme external dependence.
3. Enhancing proper remittance inflow and assistance of Bilateral partners to restructure debts.
4. Setting up more national fund generation mediums (Privatized airlines as proposed by PM can be an example) and securing justification of expenditures.
5. Accepting IMF's funds to overcome the issue but, ensure restructuring to avoid future calamities.
6. Cabinet reformulation eliminating unfair and uneven appointments.
7. Creating employment sectors to allow citizens to reform past way of life.

Conclusion

The state of affairs that plagued Sri-Lanka's strive for economic promulgation were a sequence of ill-circumstances and failure to execute necessary decision modules. The Covid-19 pandemic was at the epicenter of global shutdown and the bombing incidents that occurred just prior to it, certainly laid foundations for Sri-Lanka's turmoil. Internally, political negligence and the government at the time opting for self-profiteering and executing faulty decisions, all but slowly relinquished Sri-Lanka's cause. At present after much suffering and patience, things are looking up as per recent studies that are being generated. As the recommendation model stated in this article suggests, if certain proactive measures are taken and decisions leading to the overall sustenance of the nation are made, only then will Sri-Lanka overcome the hardship that undid their cause prior.

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